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SUBJECT: FRANCE: ENERGY SECTOR UPDATE

Refs: (A) Paris 2663

(B) Paris 1697
(C) Paris 1556
(D) Paris 1138
(E) Paris 0762
(F) Paris 0169 and previous

[1](#). (U) This is another in a series of occasional updates on the French energy sector. Feedback is welcome to help us make this product as useful as possible for our inter-agency USG audience.

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[2](#). (U) De Ladoucette named head of French Energy Regulatory Authority: President Chirac recently appointed Philippe de Ladoucette Chairman of the Energy Regulatory Commission (CRE) for a period of six years, effective April 18, replacing Jean Syrota, whose term expired on March 23. The 58-year-old de Ladoucette is a PhD in economics and sociology with a postgraduate degree in urbanism and land development. He was technical advisor to then French Industry Minister Alain Madelin in the mid-1980s and then GOF representative to the Channel Tunnel General Secretariat from 1988 to 1993, before becoming Deputy Chief of Staff to Alain Madelin from 1993 to 1994, when he was Minister of Small Business and Economic Development. De Ladoucette has been CEO of coal utility Charbonnages de France since 1996, and also served as CEO of the company's subsidiary electricity producer SNET (Societe nationale d'electricite thermique) from 1996 to 2000. Also well-known in French energy sector circles, Philippe de Ladoucette's wife Vera heads the Paris office of Cambridge Energy Research Associates. The CRE is made up of seven members: two are appointed by the French Government (including the Chairman), two by the President of the French National Assembly, two by the President of the Senate and one by the President of the French Economic and Social Council. Established in March 2000, the mission of the CRE is to ensure the smooth operation of electricity and natural gas markets without discrimination, cross-subsidies or obstacles to competition.

[3](#). (SBU) GOF Supports Closer Transatlantic Cooperation on Energy Security: EB Assistant Secretary Tony Wayne met recently with GOF energy policy officials to discuss potential areas for bilateral and US-EU cooperation to improve energy security. GOF officials responded enthusiastically, emphasizing the need to maintain pressure on Russia to open its own and gas markets and, in particular, to accept the transit protocol of the Energy Charter Treaty. They also saw great potential for collaboration on outreach to other countries, such as Ukraine, to help them reduce energy consumption by improving efficiency, as well as outreach to producer countries to encourage them to use part of their windfall profits to help developing countries cope with rising oil and gas prices. (For more details, see Paris 2663.)

[4](#). (U) Franco-German Nuclear Reactor Project Falls Behind Schedule, Yet France May Order Another: According to news reports, French nuclear powerhouse Areva has admitted that the construction of the first nuclear reactor to be built in the European Union since the early 1990s is running nine months behind schedule following the detection of several faults. The three billion euro Olkiluoto 3 nuclear power project in Finland is supposed to be finished in 2009, but delays with manufacturing components and preparing the site mean that it is not likely to be in full operation until 2010. French group Areva and Siemens of Germany are building the new 1600MW pressurized water reactor on a fixed-price contract. It will be one of the biggest nuclear plants in the world, and the first to test out the European Pressurized Water Reactor (EPR) technology. Governments and energy companies around Europe are closely watching the progress of the Areva-Siemens flagship project, particularly

Electricite de France (EDF), which says that the EPR plant it ordered in 2004 for Normandy should begin operating in 2012. Rumors have recently been circulating in the French press that in the coming weeks PM de Villepin will announce plans for a second EPR in France, a move that would show the GOF is responding to high oil prices.

15. (U) Natural Gas and Electricity Utilities to Raise Prices, Risking Public Backlash Against Privatization: The GOF will let Gaz de France (GDF) raise its average household gas prices by just 5.8%, even though this increase has received an unfavourable ruling from France's energy regulator, CRE, and is well below the 8.1% requested by GDF. The increase will come into effect on May 1. The CRE regulator refused to endorse the 5.8% increase, because it did not fully compensate GDF for the recent surge in supply costs. However, the regulator's views are non-binding, and the GOF, anxious to avoid any measures that might dampen consumer spending or economic growth, reportedly plans to stick with the 5.8% hike. The other state-controlled utility, Electricite de France (EDF), has asked the government for permission to raise prices by 1.7%, in line with the expected rate of inflation. EDF has not raised household prices since 2004. Unlike telecom privatization, which saw dramatic reductions in consumer prices as a result of increased competition, the recent partial privatizations of electricity and gas monopolies EDF and GDF have occurred in the unfortunate context of rising global energy costs. In a country suspicious of profit-driven capitalism, many fear that French consumers will blame privatization for these price hikes.

16. (U) French Industry Minister Concerned that Iran Sanctions May Harm Total: According to recent news reports, GOF French Industry Minister Francois Loos said on April 24 that he hopes French oil major Total, which has a significant presence in Iran, will not be harmed by any potential economic sanctions over its disputed nuclear program. "Total is working there," he said on the margins of the International Energy Forum. "I hope they will continue in good conditions of security." He said France continues to hope for a diplomatic solution to the impasse over Iran's efforts to enrich uranium. Loos said France is urging Iran to "to reassure the international community," saying it's up to the U.N. what happens in terms of sanctions. "I hope the results of sanctions don't affect Total," he said. Meanwhile, Iranian sources have reportedly speculated that economic sanctions, if imposed, would not be applied retroactively to impact companies already active in the country. The big concern of these companies, however, would be their ability to get spare parts and other needed supplies.

17. (U) GOF Investing in R&D to Reduce Energy Consumption: On April 25, President Chirac unveiled six major high-tech projects selected for a total of 600 million euros in GOF funding through the French Agency for Industrial Innovation (AII). Three of the six projects focus on energy: (1) a new Franco-German advanced, low-energy subway (light rail) system called "NeoVal", built by Germany's Siemens and France's Lohr; (2) a low-energy housing project by French firm Schneider Electric called "Homes" that aims to slash household electricity use by 20%; and (3) a hybrid diesel-electric car, already under development by the French carmaker PSA Peugeot. The AII was set up by Chirac last year to increase funding to targeted research and development efforts. Its current budget of 1.7 billion euros is designed to cover half of the selected companies' costs in the form of subsidies and reimbursable advances, with companies expected to match the state funds.

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